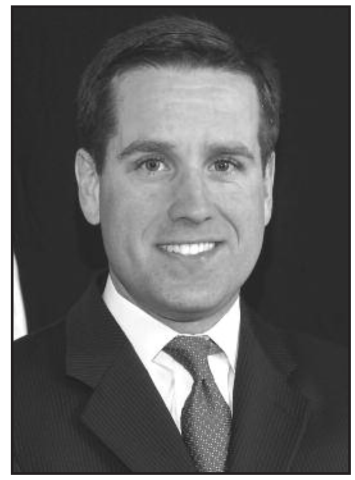
A PUBLICATION OF THE
DELAWARE DEPARTMENT OF JUSTICE
Attorney General Joseph R. "Beau" Biden III

The 2008 SAFE INVESTING GUIDE

Delaware Division of Securities
(302) 577-8935 or
(800) 220-5424
www.InvestorResourceCenter.org

Investigate before you invest!
For more on safe investing, visit www.investorresourcecenter.org
the Delaware Department of Justice's Investor Resource Center

Welcome



Now, more than ever, it is important that investors ask the right questions and that they receive full disclosure about financial products from the investment professionals who sell them. Whether you are just beginning to invest or are approaching the time when you will rely on investment earnings for income, your investment choices should be based on accurate information and an informed decision-making process.

Delaware investors have access to ever-expanding investment options. This range of choices also means that you risk being exposed to a variety of fraudulent schemes. While the vast majority of investment professionals have their clients' interests at heart, there are those that would cheat you out of your hard-earned investment dollars. These criminals offer a range of schemes and products, including illegitimate investments, products that promise high returns with little or no risk, or products with hidden fees. The Delaware Department of Justice protects investors by investigating and prosecuting brokers, investment advisors, and investment firms who break Delaware's securities laws.

Education is your key to making smart investment choices and combating the risks to your investor security. In addition to enforcing the law, the Delaware Department of Justice also serves as an educational resource to investors. As a result, we are providing this "Safe Investing Guide", with articles on a wide variety of investor issues and helpful references to additional information. In addition, the Delaware Department of Justice also provides the online Investor Resource Center (www.InvestorResourceCenter.org), a website that features the information contained in this Guide as well as educational video "webinars" for a range of audiences, including young people and families, middle-aged individuals, and mature investors approaching retirement.

The Safe Investing Guide and the Investor Resource Center were funded by fines and penalties paid by those who have violated the Delaware Securities Act. These funds are used to combat investment fraud through public education and through legal action.

I encourage you to review this Guide and to visit www.InvestorResourceCenter.org. I also urge you to contact the Delaware Department of Justice if you suspect that you have been the victim of securities fraud. Our mission is to help all Delawareans become safe and informed investors.

Sincerely,
Beau Biden
Attorney General

Financial Quiz

Fraud Awareness

☐ **1. Which of the following phrases should raise your concern about an investment?**
A. High rate of return **B.** Risk free **C.** Your investment is guaranteed against loss **D.** You must invest now **E.** All of the above

☐ **2. Securities laws protect investors by requiring companies to:**
A. Show profits before they can sell stock **B.** Provide investors with specific information about the company **C.** Pay dividends **D.** Repay investors who have lost money

☐ **3. Which situation are you taking the least amount of risk?**
A. Buying a Certificate of Deposit (CD) from a bank **B.** Investing with someone you know through your church or community association **C.** Investing off-shore **D.** Investing with someone who contacted you by phone

☐ **4. A fellow book club member tells you about an investment opportunity that has earned returns of 20% during the past year. Your investments have been performing poorly and you're interested in earning higher returns. This person is your friend and you trust them. What should you do?**
A. Ask your friend for more information about the investment so that you can understand the risks before you make a decision **B.** Invest only a small amount to see how things go before making a larger investment **C.** Call your securities regulator to see if the investment has been registered or is properly exempted for sale **D.** A and C

☐ **5. Which of the following should you rely upon when making an investment decision?**
A. Testimonials of other investors **B.** Advertisements and news stories in the media or on the internet **C.** Technical data that you don't really understand **D.** Information filed with your securities regulator

☐ **6. Ways to protect yourself from investment fraud include:**
A. Read all disclosure documents about an investment **B.** Seek advice from an independent and objective source **C.** Be skeptical and ask questions **D.** Never write the check for an investment in the name of your salesperson **E.** All of the above

☐ **7. When dealing with a securities salesperson who is considered reputable, you should do the following except:**
A. Request copies of opening account documentation to verify that your investment goals and objectives are stated correctly **B.** Open and retrieve all correspondence and account statements when you receive them **C.** Verify your written account statements with information you can obtain online **D.** Allow the salesperson to manage your assets as they see fit because they are the expert **E.** Evaluate your salesperson's recommendations by doing your own independent research

☐ **8. Which of the following are frequently used to defraud the public?**
A. Short term promissory notes **B.** Prime bank investments **C.** Offshore investments to avoid taxes **D** Nigerian advance fee letters **E.** All of the above

☐ **9. The role of government securities regulators is to:**
A. Sell shares to investors **B.** Act as an association for securities dealers and advisers **C.** Regulate securities markets, the investment industry and protect investors **D.** All of the above

☐ **10. You have been working closely with your securities salesperson for years. Recently your salesperson asked you to invest in a product that he/she is really excited about, however, the recommendation seems very different from financial products you have invested in previously. Which of the following should you do?**
A. Agree to make the investment because you have done business with your salesperson for years and trust the implicitly **B.** Check with you securities regulator to see if they have any information on the investment product **C.** Check with our securities regulator to see if the securities salesperson is authorized to sell the product in question **D.** Rely upon the written material the salesperson gives you **E.** A and D **F.** B and C

☐ **11. An investment is likely to be legitimate if:**
A. The promotional materials and company website look professional **B.** The company has a prestigious office location **C.** Other investors are receiving quick up-front returns **D.** The company has an official sounding name **E.** None of the above

☐ **12. Who insures you against investment losses?**
A. No one; this is the risk you take when you invest **B.** My securities regulator **C.** The company selling the investment **D.** The Securities Investor Protection Corporation (SIPC)

Please see pages 10, 11 and 12 for quiz answers.

Fraud Awareness Quiz obtained from the North American Securities Administrators Association (NASAA).

What to Do When You Have a Securities Complaint

The Delaware Department of Justice Division of Securities enforces the Delaware Securities Act, which regulates the sale of a range of investment products as well as the activities of investment professionals within the State of Delaware. The Securities Division investigates and prosecutes violations by brokers, investment advisors, and the firms they work for. It also serves as an educational resource to investors and investigates complaints against investment professionals and investment firms.

Attorney General Biden encourages you to take the following steps if you have a securities complaint.

Voice Your Complaint

Here are several suggestions that may help investors who are dealing with a broker or financial advisor regarding a problem:

Ask specific questions and keep good notes concerning the response you receive.

Retain all documents and record all dates of meeting and phone calls or other pertinent conversations that will help prove your allegations.

Do not rely solely on your broker or his/her immediate supervisor to rectify your complaint.

If necessary, send a letter of complaint to the legal or compliance department of the brokerage firm you are dealing with. Make sure that your letter clearly identifies the problem and that it advises the firm of your desired resolution. Include a date certain by which you expect to receive a written response.

Send your letter of complaint via certified mail.

If you are not satisfied with the response you receive, contact the Securities Division.

What to Expect When You Contact the Securities Division

The Delaware Department of Justice Division of Securities will ask you to file a complaint in writing, will review the complaint with you, and will inform you of your options. Staff may arrange an interview so that you may explain your complaint and provide additional documentation. If a formal investigation is opened, the Securities Division may subpoena pertinent documents from the firm in question, interview the investment professional and others related to the case, and take other necessary investigative steps.

As a result of an investigation, the Securities Division may proceed with a case in a number of ways, including:

The Division may decide that no action is appropriate, or that the matter is a civil dispute to be resolved by the parties. Remember, losing money on an investment does not necessarily mean that the Delaware Securities Act was violated.

The case may be settled prior to the filing of an administrative complaint. Whenever possible, the Division of Securities attempts to recover funds for the complainant.

An administrative complaint alleging violations of the Delaware Securities Act may be filed. The case may be settled prior to a hearing, or the case may proceed to a hearing where a hearing officer will determine whether the Delaware Securities Act was violated. If so, the hearing officer may impose penalties in the form of a fine, license suspension, license revocation, or other remedies.

It may be determined that the case is a criminal matter, which could lead to a criminal indictment and prosecution.

Never be too embarrassed to make a securities complaint. While many financial professionals have their clients' interests at heart, a very small number of brokers count on investors with complaints to remain silent. Remember, filing a complaint may help you and may help prevent misconduct from happening to other investors.

Notify the Delaware Division of Securities at (302) 577-8935 or (800) 220 5424 whenever you believe there is a problem with your investment account.

If you would like to file a complaint on an investment-related matter, call

(302) 577-8424

or **(800) 220-5424**

or visit our website:
www.InvestorResourceCenter.org

> ...making a complaint may help you, and may also help prevent misconduct from happening to others.

Hiring a Financial Professional: What Do You Need to Know?

Choosing a financial professional to assist you in managing your investments and retirement assets is an extremely important decision. The Attorney General encourages you to obtain as much information as possible about a financial professional before conducting business with that individual.

Several tools are available to help investors investigate the background of financial professionals. For example, the Delaware Department of Justice Securities Division can provide investors with information from registration databases that contain data about stock brokers and investment advisors. Through these databases, the Department can verify a financial professional's registration status and provide information about work history, customer complaints, lawsuits, fines and any regulatory actions taken against that stock broker or investment advisor.

Learn more about a stock broker or investment advisor before you purchase a financial product through them by contacting the Delaware Department of Justice Securities Division at (302) 577-8935 or (800) 220-5424.

Any individual acting as a broker-dealer or as a broker-dealer agent must register with the Delaware Department of Justice Securities Division. Investment advisory firms with less than $25 million under management and their representatives must also register with the Securities Division. In addition, individuals selling insurance-related investment products are licensed through the Delaware Insurance Commissioner Office. Please contact the Securities Division to determine whether your investment professional is registered/licensed through the proper regulatory authority.

Questions you should ask before hiring a Financial Professional

If you are a senior citizen, or person approaching retirement age, chances are you have received invitations to attend investment or retirement seminars. It is not unusual for these seminars to include the offer of a free lunch or free dinner for the event participant. Use of seminars by financial professionals is a perfectly legitimate tool to showcase investment products and the expert's talents and experience. You should be aware, however, that the purpose of these free seminars is to either sell you a financial product or sell you financial services.

As an informed investor, you should ask questions to make sure you understand what products or services you will be purchasing, what they will cost, and how you will be billed. Obviously, you will want to know the financial professional's background, credentials, and experience. If you are being sold a financial product, you should fully understand the product and you should request and receive literature explaining the product including all risks, costs, and fees.

Questions to ask your investment services provider:

1. What are your qualifications to offer investment advice or sell investment products?
2. What services do you offer and how do you charge for those services?
3. Do you receive a commission or fee for your services, or for the financial products you recommend?
4. Do you have any professional designations or do you belong to any professional organizations?
5. Are you registered or licensed to provide investment advice or to sell investment products, and if so, by whom are you registered or licensed?
6. Will you provide me with a written record of any disciplinary history for you or your firm?

Questions to ask if you are being offered a specific investment product:

7. Is this product suitable in light of my investment goals, risk tolerance and financial circumstances?
8. If the investment product is a security, is it registered with state or federal securities regulators?
9. How will I be charged for the purchase of the investment product and how will I be billed?
10. How will you be paid for selling me the product, and how much will your fee or commission be?
11. Can I withdraw all my money at any time without penalty if I change my mind about the investment?
12. Does the investment product carry a penalty or surrender fee?
13. What are the tax consequences of selling my current investments to purchase the new product?

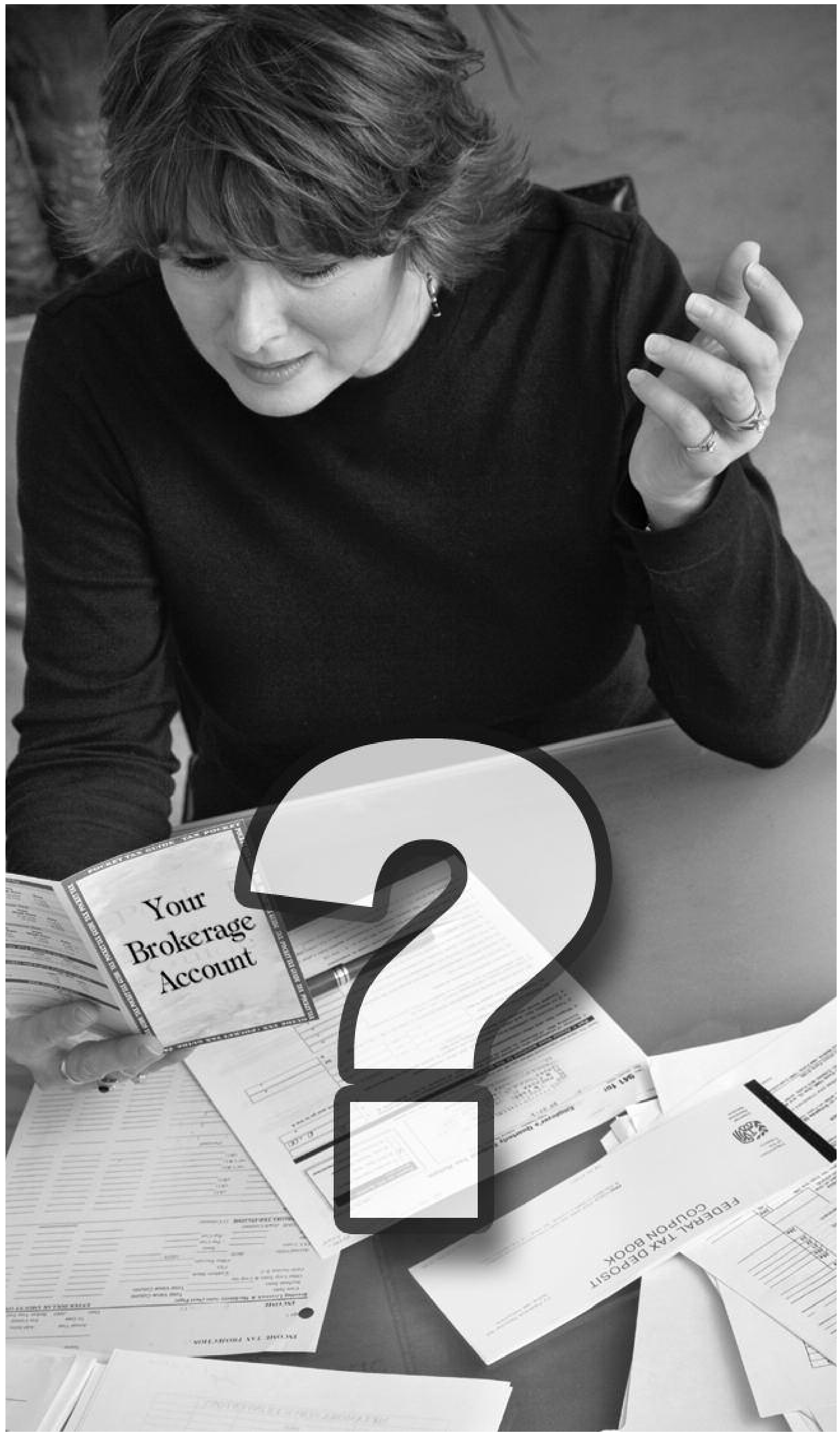
These questions provide a good starting point for your interview of a financial professional. Always make sure you are comfortable with the answers you receive before hiring a financial professional or purchasing an investment product.

You should also maintain and read all written materials you receive, particularly copies of all documents you are asked to sign. It is also prudent to carefully review any statements you receive and report any errors you find.

An informed investor is a safe investor. Don't take unnecessary chances with your hard earned retirement savings!

The Do's and Don'ts of Opening A Brokerage Account

When opening a brokerage account, it's important to start off on the right foot. The things that you do and don't do can have a profound effect on the outcome of your investments. You've worked hard to earn and save your money; make sure you protect it. When opening a brokerage account, keep in mind the following do's and don'ts.



Do:

1. If you're opening an account with a full-service broker, meet face-to-face with the broker to open your account.

2. Take careful notes of your discussions with your broker and memorialize any important aspects of your account by way of a letter to the broker.

3. Read carefully all documents that your broker gives you and make sure they are consistent with your wishes and needs.

4. Ask your broker to provide you with a copy of the final version of every form the broker prepares in connection with the opening of your account.

5. Keep every document you receive from your broker permanently.

6. Be careful when advising your broker about your investment objectives. What you say will guide your broker's decisions about the riskiness of the investment recommendations he or she makes. An investment objective targeted as "growth," for example, will likely lead your broker to make riskier investment recommendations than he or she might make if your objective is "income."

7. Do your own research for any investment your broker recommends.

8. Shop for a broker who will give you the best deal on commissions. The commissions that brokers charge can differ dramatically from broker to broker.

9. Make sure you understand any minimum balance requirements for your account and any maintenance fees that may apply if your account value falls below the minimum balance. Maintenance fees can affect the return on your account.

Don't:

1. When opening a brokerage account, you may be offered the option of adding a margin feature to your account. Margin allows you to borrow money from your brokerage firm to purchase securities. Don't agree to this unless you are willing to accept the following: (1) the risk that your broker will use the margin in your account to execute excessive trades; (2) interest charges may materially affect the returns on your investments; (3) the use of the securities in your account as collateral for the money that you're borrowing; and (4) the sale of securities from your account (possibly without notice to you) to ensure that your equity in the account is maintained at a level required by law.

2. When purchasing mutual fund shares for your account, don't assume Class B shares, which can be purchased without the payment of an up-front sales charge, are best for you.

3. There are other fees associated with owning Class B shares, a common type of mutual fund, that can materially affect the return on your investment, and you have to do the math to make sure Class B shares make sense for you.

4. Everybody would like to see their money grow, but don't tell your broker that your investment objective is "growth" unless you're willing to have your money placed in riskier investment options. Be careful how you use the word "growth" around your broker. Your broker may see that as a green light to put your money into investments that are riskier than you might really want.

5. Don't give your broker the discretion to trade in your account without your approval unless you are willing to accept the risk that he or she will execute transactions that may not be in your best interest. If you take the risky step of giving your broker discretion, make sure you monitor the activity in your account carefully by closely reading your account statements as soon as you read them, and make sure that you direct your broker to send copies of your account statements to someone you trust (your lawyer or accountant, for example).

Visit wwww.InvestorResourceCenter.org & www.sec.gov/investor for more information on managing your brokerage account.

Don't Fall Into These Top Investor Traps

Recognizing an investor trap can help you to invest wisely and protect your hard earned money. Be on the lookout for these Top 10 Investor Traps

NASAA Top Investor Traps

A membership group of all state securities regulators, the National Association of Securities Administrators Association (NASAA) issues an annual top 10 list of investor traps to warn investors about trends that could result in investor losses. Here is the NASAA top 10 list of investor traps:

1 Deficient Disclosure

The recent investigations by state securities regulators related to auction-rate securities (ARS) have reinforced that investors should remain cautious when pitched complex investment products accompanied by deficient disclosures or when advised to concentrate their investments too heavily in one investment product. If your broker or financial adviser does not either explain the recommended investment product so that you understand it or provide you with literature that explains the investment product, it may be best to avoid the investment. Investment pitches that would lead you to put all of your eggs in one basket, especially if it's a basket you don't fully understand, are not recommended.

2 Energy Scams

The substantial increase in energy costs has made scams related to energy more prevalent. State and provincial securities regulators are seeing not only shady oil and gas investments, but also scams that promise the development of new technologies to increase the efficiency of energy consumption or to extract energy from sources previously thought too expensive to develop. Be on alert if you are offered an investment opportunity dealing with energy.

3 Online Affinity Fraud

Affinity fraud occurs when a fraudster uses his or her membership in an identifiable group, such as a religious or ethnic group, or associates himself or herself with such a group, in order to gain the trust of the members of the group to facilitate a scam. In a new twist on affinity and online investment fraud, NASAA President Karen Tyler said NASAA members are concerned that unscrupulous individuals are trying to use social networking websites to lure people to meetings that may promote fraudulent or unsuitable investment products. "Social networking websites create an environment ripe for affinity fraud," Tyler said. "Fraudsters can take advantage of the fact people freely share information with both their real and 'virtual' friends by posting it to their profile," Tyler said. "Communication tools provided by some social networking websites make it easy to advertise and promote investment scams to a wide audience for free." Investors need to do their own research before making an investment and should not simply rely on 'expert' advice given at a seminar or meeting.

4 Prime Bank Schemes

Promises of receipt of astronomical profits from fictitious vehicles that execute "off-shore trades of foreign bank debentures" only available to very wealthy people and cloaked in secrecy are the securities equivalent of a purse snatch. These bank debentures simply do not exist, and once money is handed over, it will never be recovered.

5 Private Securities Offerings

Federal securities laws and regulations contain disclosure requirements designed to ensure that individual investors have adequate information when considering prospective investments. Con artists are turning increasingly to private securities offerings under Rule 506 Regulation D of the Securities Act of 1933 to attract investors without having to go through the full registration process. Although sometimes legitimate, these offerings are often associated with fraud. Also, proceed with caution when encouraged to invest in "general partnership" or "limited liability companies." Speculative deals often are packaged as such in an attempt to evade the consumer protection requirements of state and federal securities laws.

6 Promissory Notes

For sophisticated or corporate investors, promissory notes can be a good investment, providing a reasonable reward for those who are willing to accept the risk. However, promissory notes that are marketed broadly to the general public often turn out to be scams. Promissory notes are sold as instruments that guarantee above-market, fixed interest rates, while safeguarding principal. When interest rates are low, investors may be enticed by the higher, fixed returns that promissory notes offer. These notes, however, can become vehicles for fraud when the issuer of the note has no intention or capability of ever delivering the returns promised by the sales person; leaving the note worth less than the paper on which it is printed.

7 Pump and Dump Schemes

E-mail and fax spam, phony press releases and telemarketing drives are the tools of fraudsters who "pump" up the value of low priced securities, known as penny stocks, which are then "dumped" on naïve investors who purchase the stock at inflated prices. The balloon breaks when the promoters no longer maintain the myth that there is value in the shares and investors are left holding worthless stock certificates.

8 Real Estate Investment Schemes

As the housing market continues to reel from the sub prime lending crisis, schemes promising large returns from various types of real estate-related investments also are increasing. Some real estate alternatives may actually be worthless real estate investments that promoters are trying to dump off to unsuspecting retail investors. State and provincial securities regulators also note that reverse mortgages, which allow a homeowner to access the equity in their house, pose several risks: they may not be appropriate for a given investor; if the homeowner chooses the option of accepting the funds all at once in a lump sum it may create a sudden supply of cash that may be diverted into other bad investments; and they enable promoters to gain access to a senior citizen's entire financial profile. Such disclosure of other assets can lead to yet more scams—and losses.

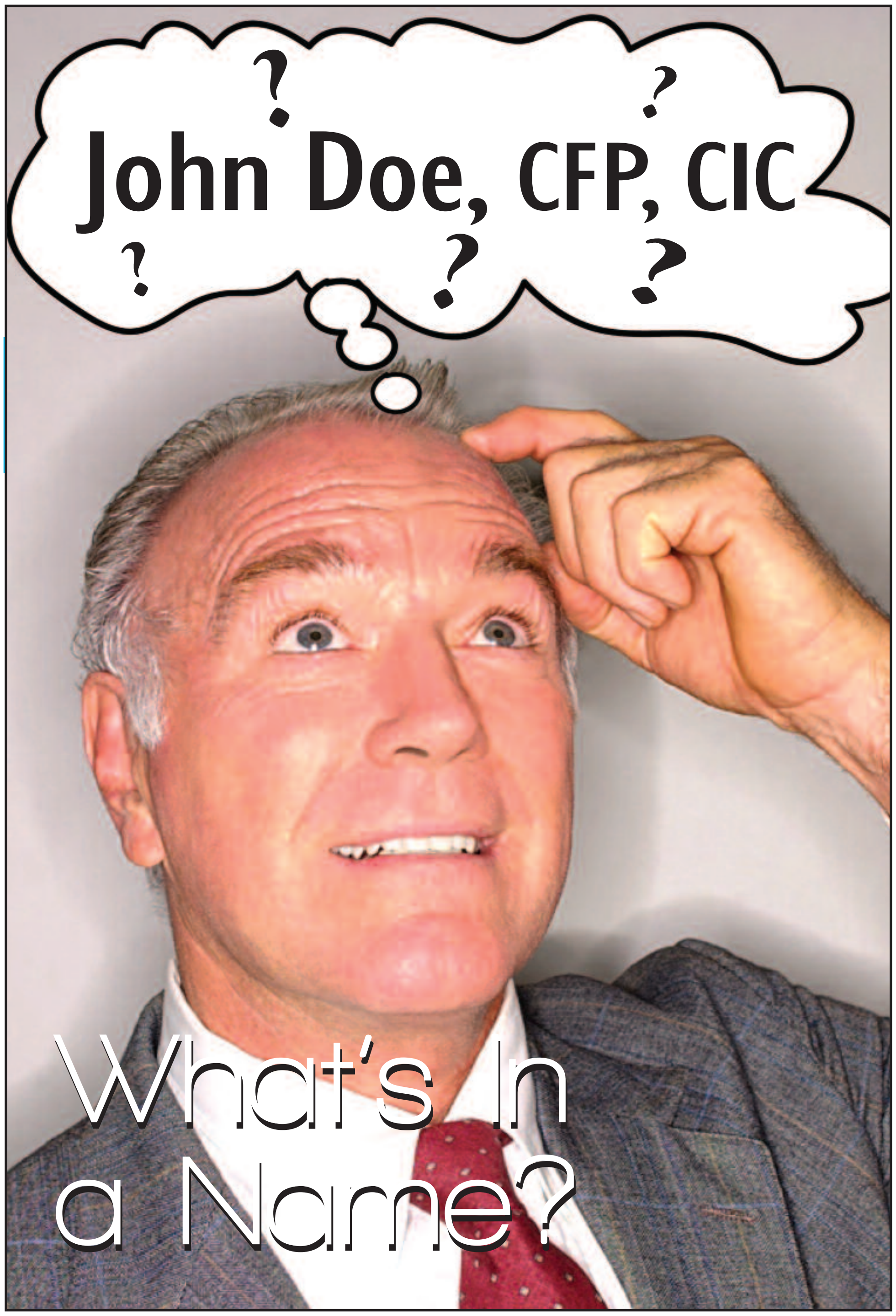
9 Sale and Leaseback Contracts

Seeking to avoid protections afforded under federal and state securities laws, investments in equipment or animals are proposed to investors with the promise of a high returns and a guaranteed future repurchase of the product at full invested price. While these investments are touted as safe, the buyback features are sometimes unfunded and illusory.

10 Unsuitable Sales

State and provincial securities regulators continue to see the sale of complex hybrid financial products, such as variable and equity-indexed annuities, to investors for whom they are not suitable—typically seniors. These products frequently contain features so complicated that even licensed financial professionals are not adequately trained to understand them.

Information compiled from NASAA's Top 10 Traps facing investors



Decoding the designations of financial professionals

Financial advisers today use a dizzying array of abbreviations after their names to distinguish themselves from each other. The seemingly never ending list of designations includes: AAMS (Accredited Asset Management Specialist), AEP (Accredited Estate Planner), AFC (Accredited Financial Counselor), CDFA (Certified Divorce Financial Analyst), CEBS (Certified Employee Benefit Specialist), CFS (Certified Fund Specialist), CMA (Certified Management Accountant), CSA (Certified Senior Advisor), EA (Enrolled Agent), REBC (Registered Employee Benefits Consultant), and RFG (Registered Financial Gerontologist). You should never conclude, however, from a mere designation after a person's name, that he or she is qualified to act as your financial adviser. Before retaining someone as your financial adviser, research exactly what that alphabet soup after his or her name means and what it took for him or her to earn the right to use it.

Although the Delaware Securities Division does not recommend any particular designation over another, the Division has decided that a person earning one or more of the following credentials is sufficiently qualified as an investment adviser to warrant a waiver from the examination requirements for licensure as an investment adviser under the securities laws of the State of Delaware:

ChFC

The ChFC designation stands for "Chartered Financial Consultant." The ChFC designation is awarded by the American College (888-263-7265) in Bryn Mawr, Pennsylvania. To qualify for the ChFC designation, a candidate must:

- have three years of full-time business experience;
- successfully complete a course of study in financial planning through a distance learning program offered by the American College; and
- pledge to comply with certain ethical standards adopted by the American College.

The American College was founded in 1927 as The American College of Life Underwriters. Although focusing originally on the educational needs of insurance professionals, the College has expanded its course offerings over the years to meet the educational needs of a number of financial professionals.

CFP

The CFP designation stands for "Certified Financial Planner." The CFP designation is awarded by the Certified Financial Planner Board of Standards, Inc. (CFP Board) (303-830-7500) in Denver, Colorado. To qualify for the CFP designation, a candidate must:

- have three years of experience in a financial planning-related field;
- pass a two-day examination covering multiple financial planning subjects;
- successfully complete a course of study in financial planning at a U.S.-accredited college; and
- agree to comply with ethical and professional standards adopted by the CFP Board.

The CFP Board is a professional regulatory organization that was founded in July 1985. In addition to the role that it plays in credentialing financial planners, the CFP Board administers a voluntary mediation program for financial planners and their clients.

PFS

The PFS designation stands for "Personal Financial Specialist." The PFS designation is awarded by the American Institute of Certified Public Accountants (AICPA) (888-777-7077) in Jersey City, New Jersey. To receive the PFS credential, a candidate must:

- be a certified public accountants;
- be a member of the AICPA;
- have experience in one or more financial planning-related fields;
- satisfy an educational requirement; and
- pass one or more qualifying examinations.

The AICPA was founded in 1887 and is the national organization that establishes professional standards for Certified Public Accountants.

CFA

The designation "CFA" stands for "Chartered Financial Analyst." The CFA designation is awarded by the CFA Institute (800-247-8132) in Charlottesville, Virginia. To qualify for the CFA credential, a person must:

- have a Bachelor's degree or four years of qualifying professional work experience; and
- pass three successive examinations dealing with various finance-related topics.

The CFA Institute was established in 1961 and administered its first CFA examination in June 1963. Today, the CFA Institute, which is a membership organization, has over 70,000 individual voting CFA members and 131 nonvoting member societies.

CIC

The designation "CIC" stands for "Chartered Investment Counselor." The CIC designation is awarded by the Investment Adviser Association (IAA) (202-293-4222) in Washington, D.C. The IAA is a national association of federally registered investment advisory firms. In order to receive the CIC designation, a candidate must:

- be employed by a member firm of the IAA in a investment counseling or portfolio management position;
- have five or more years of experience in investment counseling or portfolio management;
- pass the examinations required to become a Chartered Financial Analyst and possess the CFA credential;
- provide references attesting to the candidates good character; and
- endorse a set of ethical and professional standards published by the IAA.

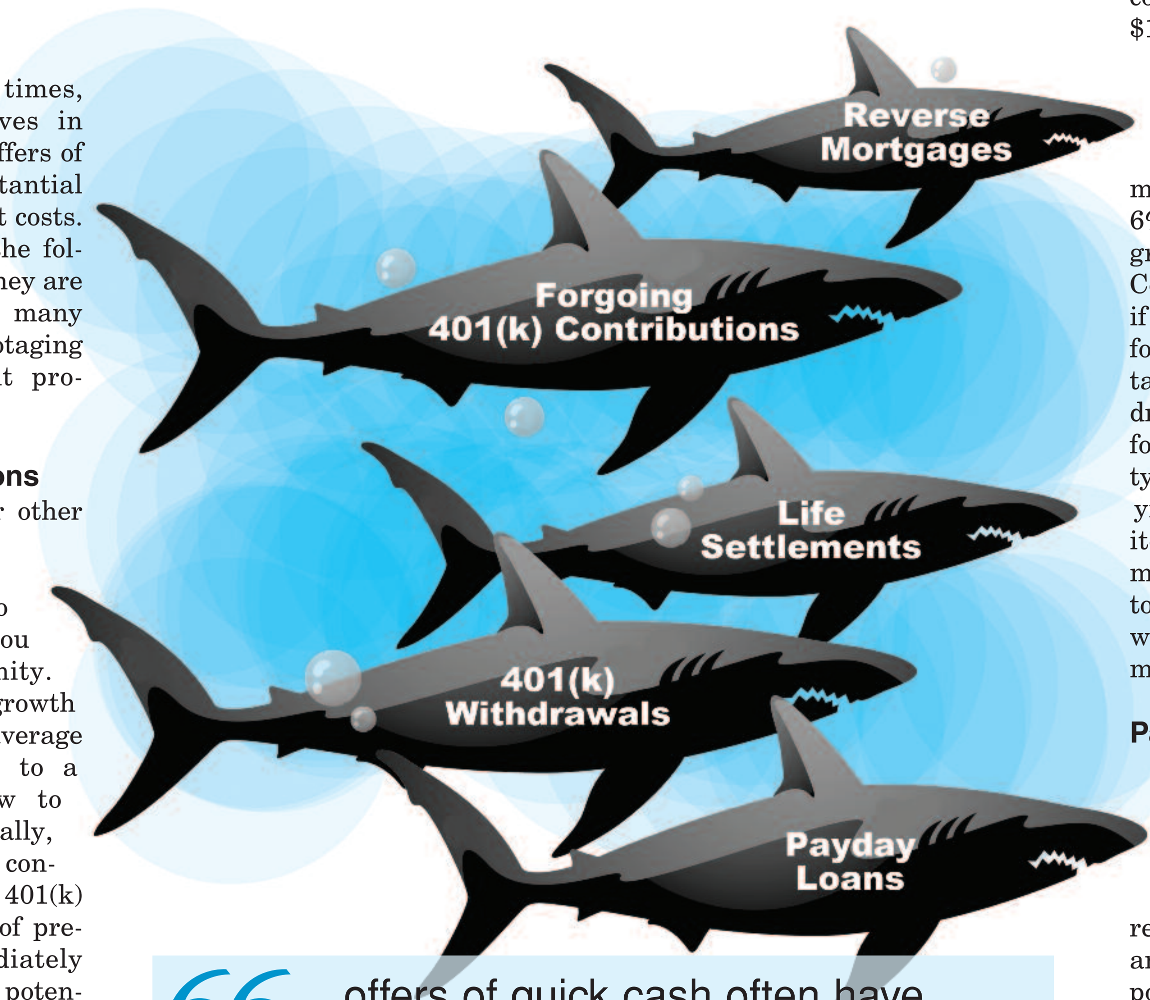
The IAA was founded in 1937 and currently consists of approximately 380 member firms that together manage over $5 trillion in client assets.

Resources

If you would like additional information regarding the credentialing of financial planning professionals, one useful resource is the *Media Guide to the Financial Planning Profession* published by the CFP Board, which is available at the CFP Board's website (www.cfp.net) Or contact the Delaware Securities Division at (302) 577-8935 or (800) 220-5424.

Investor Alert: Avoid the Perils of Quick Cash

In difficult financial times, investors may find themselves in need of cash. Unfortunately offers of quick cash often have substantial risks and come with significant costs. Investors should be wary of the following quick cash options, as they are not prudent investments for many investors and may end up sabotaging an investment or retirement program.



> ...offers of quick cash often have substantial risks and come with significant costs.

Forgoing 401(k) Contributions

Contributing to a 401(k) or other retirement plan is essential to establishing a secure financial future. Each time you forgo contributing to a 401(k) plan, you lose a growth opportunity. Compound interest fuels this growth opportunity. Assuming a 6% average return, a $500 contribution to a 401(k) at age 30 will grow to $3,226.69 by age 62. Additionally, there are tax advantages to contributing to a 401(k) plan. 401(k) plans allow for contributions of pre-tax dollars thereby immediately reducing taxable income and potentially lowering your tax bracket. Finally, some employers will provide a contribution to the retirement fund as an incentive to encourage employee contributions. Skipping 401(k) contributions is not a prudent way to solve temporary cash needs, and may have a devastating impact on your financial future.

Life Settlements

A life settlement involves the sale of an existing life insurance policy to a third party. The third party who purchases the policy typically does so for more than the surrender value, or cash value, of the policy, but less than the death benefit on the policy. The purchaser then assumes the monthly premium payments and collects the death benefits when the seller eventually passes away. In certain limited circumstances, for those who may not be able to continue making their monthly premium payment or who may be in dire need of immediate funds, these arrangements provide a way to raise cash. However, these settlements may have costly hidden fees and other negative consequences: because of changed circumstances you may be unable to purchase a new insurance policy and you may owe taxes on the lump sum you receive as part of a life settlement. Additionally, there may be privacy concerns regarding the disclosure of personal information to the purchaser of a life settlement. Make sure to consult with a trusted financial professional about other alternatives before entering into a life settlement.

Reverse Mortgages

Reverse mortgages allow you to tap into your home equity to obtain cash. Unlike a traditional loan, there are no monthly interest or principal payments due during the life of a reverse mortgage. Instead, interest is added to the principal as time passes, and the balance owed grows because no payments are required. As the balance on reverse mortgage debt grows, home equity shrinks at the same rate. For many people, home equity is their most valuable asset and an important source of funds for retirement. The potential cost of a reverse mortgage usually outweighs the benefit of any immediate cash gained by depleting home equity too quickly and wiping out a valuable asset.

Make sure to understand those potential consequences fully before you decide on a reverse mortgage, and be sure to investigate other alternatives available to you. Consult with a trusted financial professional to determine if selling your home, obtaining a home equity loan, or other options would be more beneficial.

401(k) Withdrawals

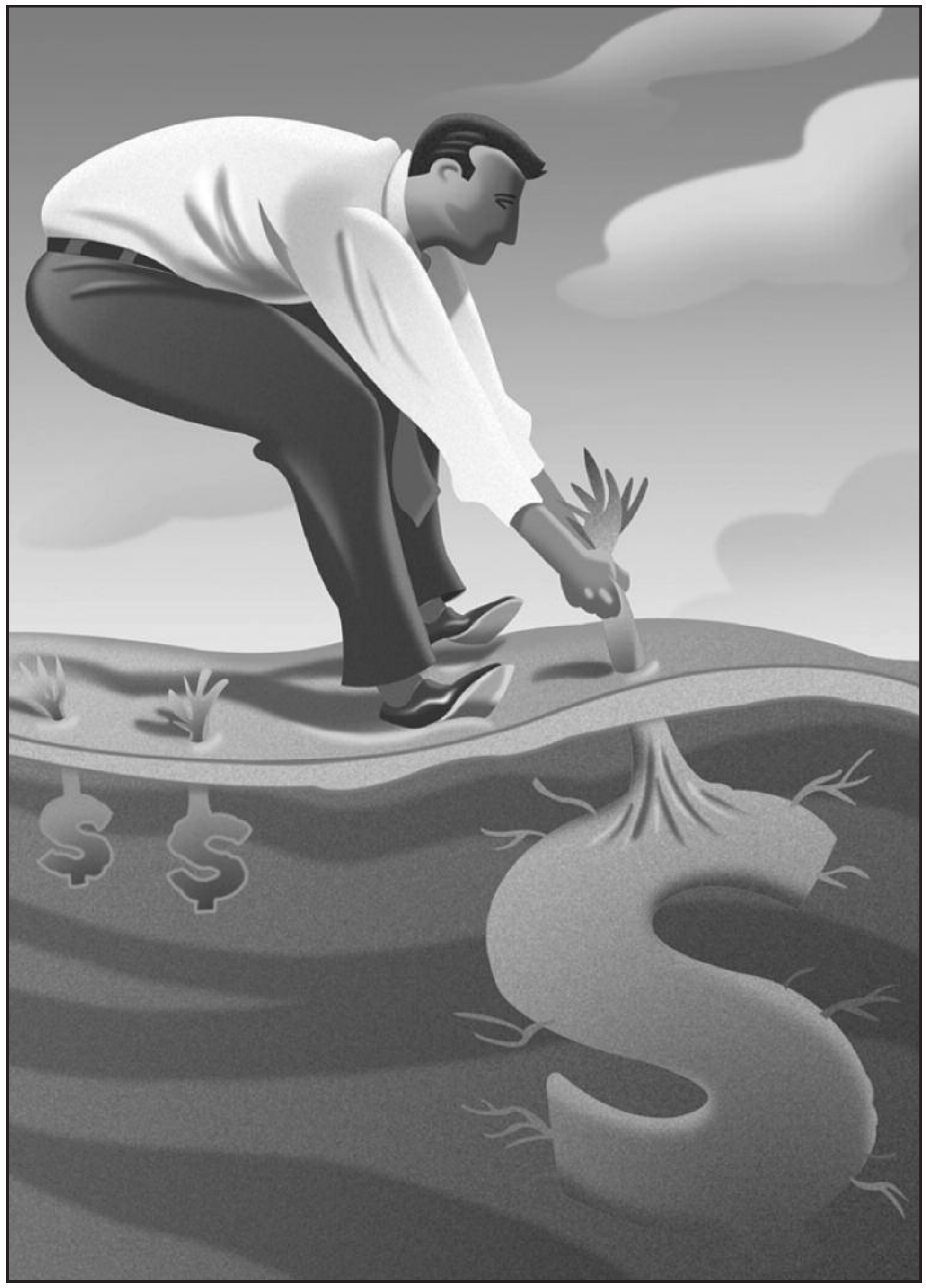
Worse than forgoing contributions to a retirement account is withdrawing funds already invested in a retirement account. Recently, 401(K) debit cards and 72(t) withdrawals have emerged as strategies to tap into retirement accounts. Borrowing against your 401(K) through the use of a debit card may have dangerous consequences to your future financial security, particularly if the money borrowed is not replaced. Retirement account withdrawals eliminate the growth potential of future compounding and usually have a negative tax consequence. A thirty year old with $10,000 in a retirement account can withdraw that money and use it today, or leave it in the account and explore other options for immediate cash needs. If the money remains invested, assuming a 6% return per year, the balance will grow to $64,533.87 by age 62. Conversely, your funds will not grow if they are withdrawn and you may be forced to pay income tax and a 10% tax penalty for making an early withdrawal. Assuming a 20% withholding for tax purposes and a 10% tax penalty, your $10,000 withdrawal will only yield $7,000 cash. Additionally, creditors cannot access funds held in many retirement savings accounts up to a threshold amount, but any funds withdrawn may be subject to attachment by creditors.

Payday Loans

These loans offer the promise of quick cash, but these small, short term loans usually come with an extraordinarily high interest rate. Payday lenders usually require you to write a check for the amount of the loan plus their fee, and post-date the check with the date of your next paycheck. The lender then gives you funds and deposits your check on your pay date. The result is a loan of typically $500 or less for a short period of time, usually under two weeks. Fees to obtain these types of loans will vary based on a number of factors, but a fee of $15 per every $100 borrowed is not unusual. Depending on the term of the loan, this can equate to an annual percentage rate of 300% or more. Payday lenders are required by law to inform you in writing of the fees associated with a payday loan and the annual percentage rate of the loan prior to signing for the loan. Payday loans should be thoroughly investigated, as should potentially cheaper alternatives, before signing.

Current market conditions present financial challenges to many people. How you deal with these challenges will impact your future financial health. Making informed and sound financial decisions may mean the difference in helping you achieve a stable financial future. Always remember to investigate before you invest!

Investing for the long term



How you can tell if an annuity is the right choice for your investment needs

Annuities have become increasingly popular investments in recent years. But, is an annuity the right investment for you?

The first step in making any investment decision is to fully inform yourself about the nature of the investment.

An annuity is a long-term investment suitable only for someone who will not need the investment funds for several years.

An annuity is a form of private insurance that insures against the loss of income in the later years of your life. It is a contract issued by an insurance company where, in return for your payment of a premium, the insurance company agrees to pay money to you on a periodic basis over time.

Common fees in an annuity contract

1. Surrender Charge: Most annuity contracts have an early withdrawal fee that is referred to as a "surrender charge." The IRS imposes a 10% penalty on any withdrawals made before the investor reaches the age of 59 ½ .

2. Mortality and Expense Risk Charge: An insurer will likely charge a fee to cover the insurance risks of the annuity.

3. Administrative Fee: This may be assessed to cover the insurer's record keeping and administrative expenses.

4. Miscellaneous Fees: An insurer may impose additional fees to cover any special features added to the contract, such as a stepped-up death benefit, long-term care insurance or a guaranteed minimum distribution.

There are two phases to investing in an annuity:

During the first phase, which is referred to as the "accumulation phase," the premium the investor pays to the insurance company is deposited into an account, which earns an income as time goes on.

During the second phase, or "payout phase," the insurance company pays out of the account to the investor in accordance with the terms of the annuity agreement.

An annuity can be characterized in several ways. For example, it can be characterized as either a fixed or variable annuity.

A fixed annuity is an annuity that accumulates at a fixed rate of interest.

A variable annuity is an annuity that provides for the investment of the assets of the annuity into other securities (such as stocks, bonds, and often mutual funds) and, thus, the accumulation of income at a variable rate. The assets in a variable annuity account are typically allocated among several different kinds of investment options set up as subaccounts within the annuity account.

Next, an annuity may also be characterized as a single or multiple premium annuity.

With a single premium annuity, the annuity contract requires that the investor make, as the name suggests, a single premium payment upon opening an account.

With a multiple premium annuity, the annuity contract requires that the investor make multiple premium payments during the annuity's accumulation phase.

Furthermore, an annuity can also be characterized as either "immediate" or "deferred." An immediate annuity requires that the insurance company begin making distributions from the annuity account to the investor immediately upon payment of the premium.

With a deferred annuity, the insurance company's obligation to make payments to the investor is deferred to a later date. There are several features to an annuity that may, depending upon an investor's particular circumstances, make the annuity advantageous.

Most annuities, for example, offer a death benefit for a designated beneficiary. Additionally, an annuity will often offer long-term care insurance.

And, perhaps most important, the tax on income that accumulates in an annuity account is deferred until the money is actually distributed to the investor.

Before deciding to invest in an annuity, an investor should carefully consider all fees associated with it. The table to the left details some of the most common fees associated with an annuity contract.

In addition to carefully considering the fees associated with an annuity, an investor should consider whether an annuity is suitable to his or her particular situation and needs.

An annuity is a long-term investment that is generally suitable only for someone who will not need the invested funds for several years.

Also, funds invested in an annuity can be lost. If the funds are invested in a variable annuity and the underlying investments in the account lose value, the annuity itself may lose value.

Finally, an investment in an annuity is only as good as the insurance company that issues the annuity.

Always check the rating of the insurance company issuing the annuity. Learn more by calling the Delaware Insurance Commissioner's Office at (800) 282-2611 or visit www.delawareinsurance.gov/annuities/

Thawing the Auction Rate Securities Freeze

On February 13, 2008, many investors in auction rate securities, or ARS, lost the ability to access their funds when mass failures in the auction rate securities market occurred. The collapse of the estimated $330 billion dollar ARS market prompted investigations by several state securities regulators into how these instruments were marketed and sold to the investing public. The North American Securities Administrators Association, or NASAA, a group comprised of state securities regulators, formed a task force to spearhead the investigations. Other regulatory agencies have also conducted investigations. Recently, preliminary settlement agreements between securities regulators and several major financial institutions have been reached in an effort to restore liquidity to ARS investors. Additional investigations are ongoing.

What are Auction Rate Securities?

Auction rate securities are financial instruments that were widely touted by underwriters and financial salespeople as safe and liquid investments, often compared with money market or other cash equivalent investments, and typically backed by debt instruments with AAA ratings that are typically considered very safe. When the majority of auctions failed in mid-February, many investors who purchased auction rate securities, in lieu of investing in money market instruments or other short term cash equivalent securities, found that they could not access their funds, as the market had frozen.

Investor complaints received by state securities regulators all bear a common thread: investors state that they were told their investments were safe and liquid, and they were not advised of the liquidity risks inherent in the ARS market. The ARS liquidity crisis has affected a wide range of investors, many of whom needed short term access to their funds for various reasons, such as the purchase of a home, to pay for medical care and expenses or to finance their retirement. Many of these investors relied on representations from their financial professionals that ARS were liquid and safe investments akin to a money market account. Many of these investors were shocked to learn that their funds had become frozen almost overnight.

How does the auction process work?

ARS, are debt instruments that have an interest rate that resets periodically through an auction process, either every 7, 14 or 28 days. Holders of ARS are entitled to periodic interest payments based on an interest rate determined at the auction. Historically, ARS auctions have been successful because sufficient demand for ARS existed to meet the available supply.

What caused the market to fail?

If there are not enough buyers to purchase all the ARS for sale in a given auction, the auction fails and the interest rate is set at a "fail rate," as outlined in the ARS prospectus. When the auctions failed, no ARS units changed hands, thus buyers could not buy and sellers could not sell their ARS holdings. In effect, the market was frozen.

Investigations by state securities regulators indicate that prior to the mass failures in the ARS market in mid-February, industry practice at some firms was for the lead underwriter of any given ARS to submit a supporting bid in the auctions to insure that the auctions would not fail. In essence, the underwriters bought any unwanted ARS in the auctions. The artificial demand injected into the market by these underwriters submitting supporting bids allowed the auctions to succeed despite declining demand for ARS products. However, in mid-February, due to cash restraints resulting from the sub-prime credit crisis, some underwriters stopped submitting supporting bids in many auctions, causing large scale auction failures.

Current status of market

One of the main goals of securities regulators investigating the sale and marketing of ARS was to provide liquidity back to ARS investors. Preliminary settlement agreements with eight of the major lead underwriters in the ARS market, such as Citigroup, UBS, JP Morgan, Morgan Stanley, Wachovia, Merrill Lynch, Goldman Sachs and Deutsche Bank have been reached. Many of these firms have agreed to purchase the ARS holdings of retail and individual investors. Many of the agreements also allow for investors who may have sold their ARS at a discount to be reimbursed for their loss. Additionally, investors maintain the option of pursuing consequential damages. Each of these firms has also agreed to payment of monetary penalties to the states (which will become due after retail investors have been bought out). Investigations of other firms continue, as regulators strive to establish liquidity for all ARS investors.

If you would like to know more about auction rate securities, please contact the Delaware Division of Securities at (302) 577-8935 or (800) 220-5424.

Financial Quiz **Answers** (Quiz is on page 2)

E **1.** Unusually high rates of return should be viewed as a cause for concern about an investment and would indicate a high-risk investment. Investigate all risk-free promises. Guarantees should also raise concern. Legitimate investments are not guaranteed against loss. Suggesting that you must invest "now" is generally a high pressure tactic used by swindlers to get the money before investors can change their minds or obtain more information.

B **2.** Securities regulation is based on a disclosure system – laws requiring companies to provide investors with specific information. This ensures that investors have access to the information they need in order to make sound investment decisions. Companies do not have to show profits nor pay dividends in order to sell stock to investors. Also, companies are not required to repay investors who have lost money by investing in their shares.

A **3.** Buying a CD is low risk, but you should investigate insurance levels in the event of the bank's failure. You should also consider inflation risk when dealing with low return investments. If you are going to invest with someone you know through your church or community association, you should ensure that both the person and the investment are properly registered/licensed with your securities regulator. You should thoroughly investigate before investing your hard earned money. Investing offshore is not a guarantee of tax benefits. In addition, when you invest offshore, you are giving up some of the protections provided by your securities regulator. Investing with someone who calls you with an investment opportunity is also very risky. You should always be skeptical of telephone pitches.

D **4.** You should never make an investment based simply on word of mouth, even if the recommendation comes from a family member, friend or acquaintance. Fraudulent schemes are frequently perpetuated in this way. The promise of quick, high returns should also alert you to a possible scam. As a general rule, risk and return are proportional: the higher the return, the higher the risk. Even if a company looks and sounds legitimate, you should always check it out. Therefore, ask for more information about the investment and call your securities regulator to see if the investment has been registered or exempted for sale.

Quiz Answers *continued on page 11*

Investing in education

Section 529 Qualified Tuition Programs

Education is one of the most important investments you can make in your future. The number of available jobs requiring college level education has increased dramatically in recent years. However, some studies show the demand for college educated workers is not being met. According to some studies, the typical college graduate can expect to earn close to $1 million dollars more than a typical high school graduate over the course of a working lifetime. The importance of saving for education cannot be understated. With the right planning, financing a college education and benefiting from the value of that education is possible.

One way to plan for higher education expenses is through a Qualified Tuition Program, or 529 plan. 529 plans allow participants to contribute to an account established for the purpose of paying a student's future higher education expenses, including tuition, books, and room and board. Earnings on contributions to 529 plans are tax deferred, and withdrawals for qualified higher education expenses are free from federal income tax. Additionally, there are state tax incentives that may result from investment in a 529 plan account. The bottom line: if you are saving for higher education expenses in a traditional brokerage account, when it comes time to withdraw your money you will generally be subject to capital gains tax on your earnings. However, if you are saving in a 529 plan account, you can avoid those negative tax consequences as long as your withdrawals are for qualified higher education expenses

Saving for higher education is more important than ever. In recent years the cost of education has grown faster than inflation, making it important to start saving for higher education early. By starting to save for higher education early on, account holders allow more time for their funds to grow. For example a $500 initial investment, assuming a 6% growth rate per year over 18 years, will result in a return of $1,427 dollars. If additional contributions of $500 per year are made, assuming the same 6% growth rate per year, the account value at the end of 18 years would be $16,380.

Any U.S. citizen over the age of 18 is eligible to open a 529 plan account, there are no income restrictions. Beneficiaries of 529 plans are restricted to individuals with certain specific familial relationship to the account holder, but generally a 529 plan beneficiary must be a close relative of the account holder. There is flexibility to change the beneficiary on the account to another eligible family member, and adults can be named beneficiaries and can even use 529 plan accounts to pay for their own higher education expenses. If the beneficiary of a 529 plan account does not pursue higher education, the account holder may request a refund, but there may be additional tax consequences as a result.

Typically 529 plan accounts are managed by mutual fund companies. Mutual funds are the predominant investment vehicle used in these plans. The State of Delaware College Investment Plan is managed by Fidelity, and offers several investment options to choose from. The plan provides two different age based investment models designed to transition account holdings into appropriate investments depending on the beneficiary's age. Additionally, there are six other investment options to choose from.

If you would like more information regarding Qualified Tuition Plans or other personal finance and investing information,visit InvestorResourceCenter.org, or contact the Delaware Division of Securities at (302) 577-8935 or (800) 220-5424.

Financial Quiz **Answers** *(Continued from page 10)*

D **5.** Information filed on an investment with your securities regulator can include disclosure documents, such as a prospectus or offering memorandum, and is meant to provide you with valuable information in order for you to make a wise investment decision. This is your best source of information about the history of the company and the risks associated with the investment.
When shopping for investment, you should base your decisions on your own financial situation. If you don't understand an investment or if it feels too risky, don't invest in it. New stories may be factual, but may not provide investors with enough information on which to base an investment decision. Ads are not necessarily factual. Be aware that con artists use advertisements, technical language, fake testimonials, and news stories to make their schemes appear legitimate.

E **6.** Before making an investment, do your research and ensure that you understand what you are buying, the risks involved and if it is suitable for your personal financial situation. You can obtain written materials from your salesperson, go to the library, use the Internet, and/or get an opinion from another professional. Contact your securities regulator to ask about the salesperson's background and to verify proper licensing or registration of the investment and salesperson. Never transfer money in the name of a salesperson. Your check or fund transfer should always be directed to the company in which you are investing or to your brokerage/investment firm to settle your account.

D **7.** Registered/licensed securities salespeople and their administrative staff can and do make errors. These errors and mistakes can be costly and need to be caught and corrected as soon as possible. More importantly, there have been instances where salespeople have intentionally abused their clients' trust through excessive trading in their accounts, selling them inappropriate financial products and outright fraud. Generally speaking, your salesperson should never buy or sell a security without first getting your approval.

E **8.** With the presence of con artists and the ever-increasing complexity of financial products and markets, today's investors need to be well informed. The abovementioned items are all "scams" but represent only a small number of fraudulent investments that are currently being sold to unwitting investors. NASAA provides a current list of these scams that you can review at www.nasaa.org. Consumers need to maintain a heightened sense of caution when investing. Additionally, if the investment is something you are not familiar with, be sure to gather information and understand the product **prior to investing.** Consult with your securities regulator and review its website for additional investor education materials and information on scams.

C **9.** Securities regulators administer the laws in their jurisdiction. One of their key mandates is to protect investors by ensuring that the rules and regulations are followed. Securities regulators do not sell shares directly to the public, but oversee the companies that do. They do not represent the industry, but provide protection to investors through rules, regulations and educational programs.

Quiz Answers *continued on page 12*

Investigate Before You Invest!

visit

www.InvestorResourceCenter.org

for Resources to help you
become a more informed investor!

Financial Quiz **Answers** *(Continued from page 11)*

F **10.** It is important to ask for and obtain written details of the investment recommendations you receive **before you make any decisions.** This could include a prospectus, an offering memorandum, research reports and other information. You should also contact your securities regulators for information relating to the registration or exemption status of the securities product in addition to checking to see if your salesperson is registered/licensed to sell the investment product. You should **always** assess your investment objectives before making an investment in this, or any other product, to determine the risks involved, even if the recommendation comes from someone that you have done business with for many years.

E **11.** You should not judge the legitimacy of an investment by the following: the look of the written promotional materials you receive; where the company's office is located; its website; whether other investors received quick up-front returns; or the name of the company. All of these things may be done to lure investors into a scheme. Do your homework. Obtain information about the company from reputable sources such as the SEDAR website for Canadian publicly traded companies (www.sedar.com) or the EDGAR website for U.S. public securities filings (www.sec.gov/edgar.shtml) and call your securities regulator **before** you invest.

A **12.** Any investment involves some degree of risk. You should know what degree of risk you are willing to take in order to meet your financial goals and objectives. Securities regulators protect investors by ensuring that securities laws and rules are abided by, but they do not insure investments. Be aware that there have been many problems with companies that falsely inform investors that their investments are guaranteed or insured. SIPC (www.sipc.com) in United States, and CIPF (www.cipf.ca) in Canada, do not insure investments or cover declines in investment value or fraudulent sales. SIPC and CIPF provide coverage in limited circumstances and with set dollar limits in the event of insolvency of a member brokerage firm. Investigate **before** you invest since you alone are bearing the risk involved with your investments.

Contact Information for the Delaware Department of Justice

New Castle County
Delaware Division of Securities
820 North French Street, 5th Floor
Carvel State Office Building
Wilmington, DE 19801
(302) 577-8424
Fax: (302) 577-6987

Kent and Sussex Counties
Delaware Division of Securities
114 East Market Street
Georgetown, DE 19947
(302) 856-5353

Some information contained in this informational publication has been obtained from the North American Securities Administrators Association (NASAA) and the Financial Industry Regulatory Authority (FINRA).